

City of Kent Efficiency Study

Phase 1 Summary Report - December 2012



"Helping Communities and Organizations
Create Their Best Futures"



INTRODUCTION

At their July 31st meeting, the Kent City Council passed the City Efficiencies Resolution which directed the mayor's office to "hire an independent consultant with experience in analyzing staffing, structure and services provided by city government in order to provide recommendations to generate further efficiencies in governmental operations, with the goal of reducing the city's annual budget."

Over the past several years, the City of Kent has undertaken meaningful steps to reduce its total number of employees and increase productivity in response to reduced revenues that have resulted from the combined effect of several tax limiting measures and the impact of the recent recession and the very slow recovery. At the same time, the City has been managing its response to increased demands for public services that have resulted from the recent Panther Lake annexation which brought an additional 25,000 residents and new revenues, including a 10-year annexation sales tax credit to support revenue shortfalls in the area.

Given these significant, and still fluid, shifts in both the city's revenues and demands for service, it is a good time to take a deeper look at the efficiency of city governmental operations and to determine how best to move toward a more robust, long-term fiscal balance. Based on a review of the presenting challenges, the following phased approach to meeting the goals stated in the City Efficiencies Resolution was developed.

Phase 1. The objective of Phase 1 is to conduct a situation assessment and identify possible efficiency measures. This phase is focused on fact finding and presenting choices, options, and preliminary implications. The approach focuses on a collaborative process working with city staff to ensure that the options reflect the particular realities facing the organization and to use the process to build a common understanding of the situation and the range of options that are available. The key elements of Phase 1 include:

1. Assessment of the current cost and level-of-service situation at the City

2. Analysis of peer and neighbor jurisdictions to see how the City compares on a range of cost and revenue metrics
3. Identification of possible opportunities to streamline the City's cost structure
4. Conducting an initial, high level assessment of impacts and tradeoffs implied by the options identified in step 3.

Phase 2. The objective of Phase 2 would be to more fully analyze efficiency options identified in Phase 1, select the most effective options and develop a strategy to move forward. This phase would build on a common understanding of the situation and the options with the goal of developing a strategy and implementation plan. The plan would be developed collaboratively with staff, administration, and Council to ensure that the opportunities and tradeoffs are well understood and the action steps have broad buy in from key stakeholders. It may be desirable to involve some community stakeholders as the plan takes shape, to gain additional perspective on the choices and tradeoffs.

The balance of this summary report describes the result of the Phase 1 effort and is organized according to the following major sections:

- I) Approach to the analysis;
- II) Situation assessment:
 - A) Demographics,
 - B) Tax base and revenue analysis, and
 - C) Expenditure and staffing analysis;
- III) The sustainability challenge facing the City;
- IV Preliminary opportunities assessment; and
- V) Approach to Phase 2.

I. APPROACH TO THE ANALYSIS

The objective of the Phase 1 analysis was to develop a common understanding of the City's current fiscal situation and to identify a range of options that might be considered to improve the City's fiscal balance. The approach to this effort focused on several concurrent analytic and data gathering tasks and a process for reviewing and discussing findings and implications with staff and senior leadership.

The analysis for the Situation Assessment included:

- **Analysis of City Trends.** The consultant team analyzed demographic, financial, staffing, and expenditure information to determine relevant trends or significant changes that could be contributing to fiscal balance issues.
- **Review of Organizational Structure and Span of Control.** The team conducted a review and assessment of the City's current organizational structure and span of control to determine whether there might be opportunities to create efficiencies.
- **Interviews.** Detailed interviews were conducted with the senior leadership team and senior managers from all City departments. The interviews were targeted to better understand the current demands on staff and how these demands have changed due to the recent annexation and staffing reductions.
- **Peer and Neighbor Cities.** To place the City's situation in a broader context, a peer and neighbor cities analysis was conducted, whereby relevant budget information was collected to allow for comparisons of key cost and revenue metrics. Exhibit 1 presents the list of peer and neighbor cities used in the analysis.

The situation assessment was used as the platform for developing a long list of potential cost efficiency and effectiveness opportunities. This effort involved direct collaboration with City staff, particularly as it related to fully understanding the potential impacts or tradeoffs of any potential efficiency measures.

Exhibit 1
Key Metrics for Selected Peer & Neighbor Cities

Peer Cities	Population 2012	Employment 2011	Population & Employment	(2011 Boundaries)	Density (Pop+Jobs/Ac)	Jobs/100 Population
Kent	119,100	61,858	180,958	21,670	8.35	51.94
Auburn	71,240	37,400	108,640	19,161	5.67	52.50
Bellevue	124,600	122,635	247,235	20,461	12.08	98.42
Everett	103,300	84,896	188,196	21,436	8.78	82.18
Federal Way	89,460	28,811	118,271	14,246	8.30	32.21
Kirkland	81,480	31,745	113,225	11,361	9.97	38.96
Renton	93,910	54,997	148,907	14,909	9.99	58.56
Vancouver	163,200	77,603	240,803	29,990	8.03	47.55

Fiscal Balance Framework

The situation assessment was conducted using a fiscal balance framework which states that to be sustainable over the long-term, there needs to be alignment between factors that drive costs and revenues. Efficiency is a key element of a sustainable program of municipal services however it is a necessary, but not sufficient element. It is possible to be both efficient and unsustainable.

The challenge is to provide the services that the community needs at a price they can afford. The key is that the characteristics of the community drive both the demand for services and provide the tax base that funds these services. The following describes the elements of the framework and where the City can influence the balance.

Demand for Services represents the demand for specific services to meet the needs of the community: the number of police or fire calls for service, permit requests, recreation needs, water consumption and wastewater treated, and requests to the Courthouse or City Hall for information.

Governance/Scope is the statutory framework that guides how the government is organized and structured to deliver services. State law, charters, codes, and regulations guide this. Cities and counties have only limited control to change which services are mandated or discretionary.

Level of Service is the level of specific service to be provided: police and fire response times, acceptable levels of traffic congestion, and number of parks. Governments may not choose whether they can provide certain direct services, but have flexibility to make choices about how services are delivered in the areas of management (overall coordination of services) and administration (planning, economic development, budgeting, information technology, human resources, and overhead).

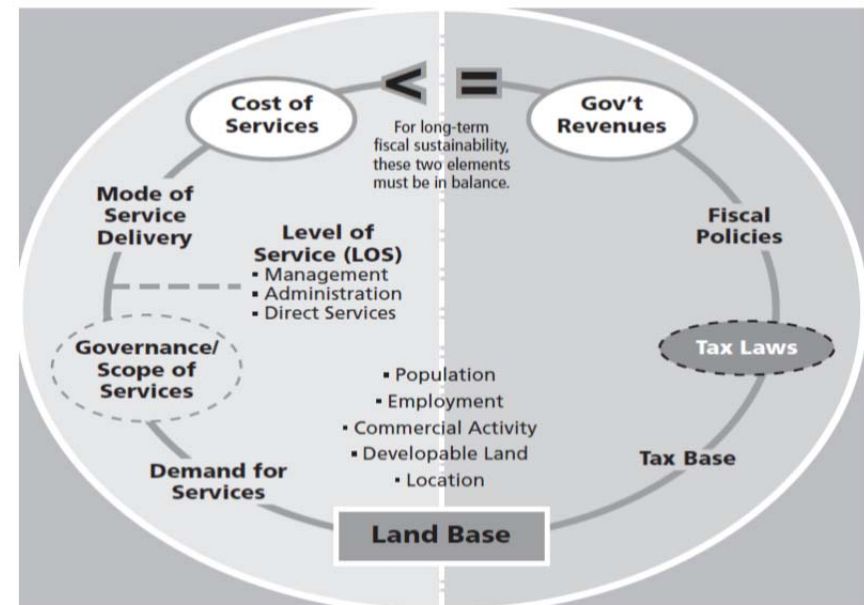
Mode of Service Delivery focuses on how direct services are delivered efficiently and productively by changing the coordination, deployment, and management of resources. Direct services include roads and streets, police, utilities, human services, and criminal justice. Mode of service delivery relates

to workforce issues, front-line program implementation, and what the customer sees at the front counter.

Tax Base includes property values, taxable retail sales, and commercial activity that could generate public sector revenue. Generally, there are three primary types of tax base: income, consumption, and wealth.

Tax Laws are the boundaries within which the tax base can be turned into revenue to support services. I-747 changed one element of the fiscal balance equation by capping property tax levy growth.

Fiscal Policies represent the government's actions to combine statutory authority and revenue capacity and to generate revenues: that is how is a government using its revenue authority to fund services? Examples relevant to the City of Kent include utility taxes, submitting special levy lid lifts to voters for parks and transportation, recreation fees, business license fees and a business and occupation tax, and cost recovery policies for fee-based services, including utility services.



II. SITUATION ASSESSMENT

The principal analytic task in Phase 1 was to develop a comprehensive situation assessment that looks at how the City is currently organized, its cost structure, the demands for city services, the current and desired levels-of-service and the cost drivers that are likely to have an impact on future cost growth. The assessment was informed by a peer and neighbor analysis to provide useful context as to how the City of Kent compares to other jurisdictions.

Demographic Profile

The City of Kent has been through significant changes in recent years, as the City has grown from a population of just under 80,000 in 2000 to almost 120,000 in 2012. The following are some noteworthy demographic findings:

- Population growth has been dramatic, driven by both natural growth through development and by policy through annexation.
- While the generational shifts tend to support an aging population in general, the City's age composition has changed little over the last decade, suggesting the City remains a family-oriented community.
- One noteworthy demographic change has been the fact that the City is now majority minority. It is also noteworthy that the annexation area was similarly balanced and so had no real effect on this shift.
- The City has also seen an increase in foreign born residents from about 17% in 2000 to almost 24% in 2010. As with the minority population change, the annexation area was not materially different.
- Household income grew at both ends of the income scale, with smaller shares of households in middle income categories. Households in the annexation area were more concentrated in the middle categories helping to balance out these shifts.
- Median income in the City dropped in 2012 inflation-adjusted terms from \$63,118 in 2000 to \$51,815 in 2010 (pre-annexation). The median income of the annexation area in 2010 was \$77,175.
- Another key demographic is housing tenure, which saw owner-occupied housing remain relatively stable at about 50% for the pre-annexation boundary. The annexation area was much higher at 78%.

Exhibit 2
Minority Population Shares

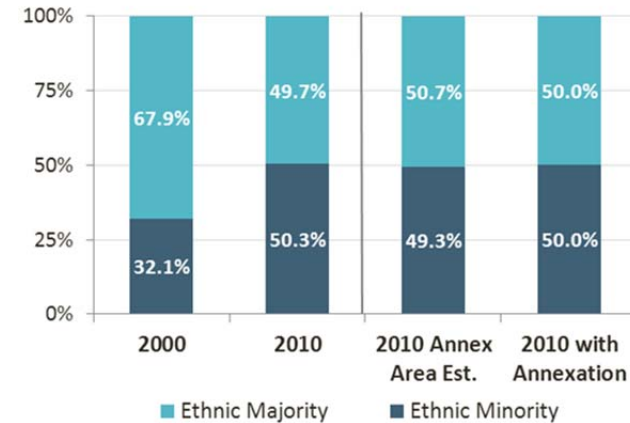
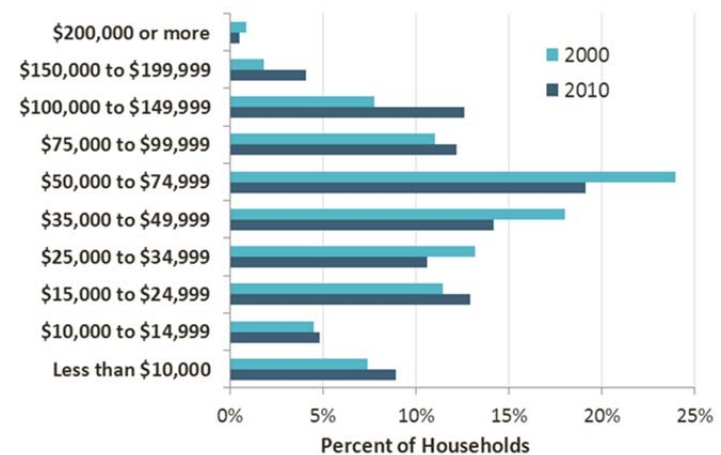


Exhibit 3
Household Income



Tax Base and Revenue Analysis

As discussed earlier, efficiency is only one part of a sustainable service model. Another key element to understand is the City's revenue picture in terms of the underlying tax base and the fiscal policies that generate the funds needed to support city services. There have been a number of factors that have affected the City's revenue base, some structural (statutory changes) and some cyclical (effects of the recession).

Before delving into the specific components of the City's tax base it is worth taking a look at the basic structure of municipal funding in Washington State. Under state law, property tax, retail sales tax, utility taxes, and business taxes/fees comprise the "four legs under the table" of local government funding capacity. A key challenge for cities is to find an appropriate balance across these major funding mechanisms that will support the community's service needs in an affordable way.

Property tax. Property tax has traditionally been the backbone of local government funding. Since 2002 however, the levy has been limited to 1% plus new construction making it very difficult for property tax revenues to keep up even with inflation, let alone increases in demand for services.

Sales tax. After property tax, the sales tax is the most important local source of revenue and the most susceptible to swings in the economy. Because of the distribution of major retail, sales tax revenues vary significantly among cities.

Utility tax. Public and private utility revenues are the third major tax base element that almost all jurisdictions rely upon and the most stable of the "big three" – less volatile than sales tax and generally keeps up with inflation.

Business taxes. Historically, only the largest cities have relied on business taxes as a major funding element, due to the perception that business taxes erode local competitiveness. This has been changing somewhat as a result of the property tax limitations.

Other sources of revenue include fees, intergovernmental revenues, and assorted local taxes such as admissions and gambling taxes. Cost recovery goals on fee for service activities have become a much more significant component of local government fiscal policies.

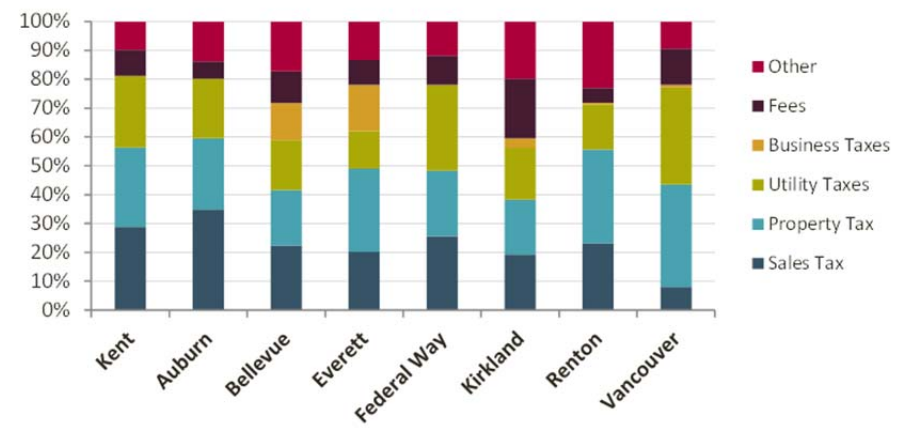
While all communities share the same revenue options, choices about which options to use and to what degree vary widely. Exhibit 4 presents a look at the relative diversity in the revenue base for the City of Kent and its peer and neighbor jurisdictions.

Kent currently relies on the "big three" tax components (sales, property, and utility taxes) for more than 80% of its general tax and fee revenues. This is higher than all of its peers, with Vancouver and Federal Way coming closest at near 80%. In comparison Bellevue and Everett have the most diversified funding base with balance across the various tax and fee sources.

A significant factor underlying this is the variation in local conditions. For example, Bellevue and Everett enjoy well establish and reasonably diverse commercial bases, while Vancouver must rely on non-sales tax components to a much larger degree, due to their proximity to Oregon and its tax-free shopping opportunities.

With recent Council decisions, the City will be increasing the diversity of its tax base by tapping the business base through the introduction of a local B&O tax.

Exhibit 4
Peer City Comparison: Revenue Diversity



Tax Base and Tax Policies

The tax diversity picture provides a high level comparison of how different communities balance the tax burden across the various tax and fee options given various local constraints and opportunities. To look a little deeper, the analysis considers how the two primary local tax base components have changed in recent years. Exhibit 5 presents assessed value and taxable retail sales per capita for 2008 and 2011 for Kent and its peers.

- The City of Kent has lost ground to its peers since 2008 in the size of the property and sales tax base.
- Property values per capita are lower now than they were in 2008 and the reduction has been more significant relative to its peers.
- The sales tax base has shown a dramatic reduction, relative to most peers, on a percentage basis and in terms of productivity.
- Kent's sales tax base is now the lowest among its peers.

The effect of these absolute and relative reductions in tax base is that these key revenue sources have become less productive in recent years. When we consider the effect of tax policies it becomes clear that these changes have been a key element of recent budget challenges.

Exhibit 6 shows that Kent is largely in line with most peer cities on tax policies, with some notable variations, such as Vancouver's high utility taxes which are used to offset its sales tax challenges.

A key finding is that in every comparison with a peer city there is a mix of rates which are higher (green arrow) and lower (red arrow) than current Kent policy. This is a good reflection of how cities balance their tax policies given local conditions and community preferences.

With the proposed budget, Kent would join Bellevue and Everett as the only cities with a local B&O tax among the peers, though others have other forms of business tax, such as a head tax. It is important to note that while Kent's property tax is low, which is at least partly attributable to the formation of the Regional Fire Authority, which is funded by its own property tax levy.

Exhibit 5
Peer City Comparison: Tax Base

Peer Cities	Assessed Values per Capita		Taxable Retail Sales per Capita	
	2008	2011	2008	2011
Kent	\$119,012	\$100,110	\$24,891	\$13,610
Auburn	▼ \$74,671	▼ \$85,307	▼ \$24,256	▲ \$19,605
Bellevue	▲ \$249,887	▲ \$246,047	▲ \$47,323	▲ \$39,040
Everett	▲ \$131,197	▲ \$119,917	▲ \$25,931	▲ \$22,326
Federal Way	▼ \$98,242	▼ \$89,012	▼ \$15,385	▲ \$13,613
Kirkland	▲ \$228,635	▲ \$211,855	▲ \$33,953	▲ \$31,001
Renton	▼ \$112,096	▲ \$115,124	▲ \$28,719	▲ \$20,919
Vancouver	NA	▼ \$85,550	▼ \$16,204	▲ \$14,828

Exhibit 6
Peer City Comparison: Tax Policies

Tax	Kent	Auburn	Bellevue	Everett	Federal Way	Kirkland	Renton	Vancouver
Sales Tax	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%	0.80%
Property Levy Rate	\$1.57	▲ \$2.08	▼ \$1.20	▲ \$2.92	▼ \$1.30	▼ \$1.46	▲ \$3.10	▲ \$2.99
B&O Tax	0.00%	0.00%	▲ 0.15%	▲ 0.10%	0.00%	0.00%	0.00%	0.00%
Business Fee/Head Tax	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	▲ \$100.00	▲ \$55.00	▲ \$50.00
REET	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Electrical Utility Tax	6.00%	6.00%	▼ 5.00%	▼ 4.50%	▲ 7.75%	6.00%	6.00%	▼ 5.00%
Gas Utility Tax	6.00%	6.00%	▼ 5.00%	▼ 4.50%	▲ 7.75%	6.00%	6.00%	6.00%
Water Utility Tax	10.00%	▼ 7.00%	▲ 10.40%	▼ 6.00%	▼ 0.00%	▲ 13.88%	▼ 6.00%	▲ 20.00%
Sewer Utility Tax	10.00%	▼ 7.00%	▼ 5.00%	▼ 6.00%	▼ 0.00%	▲ 10.50%	▼ 6.00%	▲ 20.00%
Stormwater Utility Tax	10.00%	▼ 7.00%	▼ 5.00%	▼ 6.00%	▼ 7.75%	▼ 7.50%	▼ 6.00%	▲ 20.00%
Garbage Utility Tax	7.80%	▼ 7.00%	▼ 4.50%	▼ 0.00%	▼ 7.75%	▲ 10.50%	▼ 6.00%	▲ 20.00%
Telephone Utility Tax	6.00%	6.00%	6.00%	▼ 4.50%	▲ 7.75%	6.00%	6.00%	6.00%
Cable Utility Tax	0.00%	▲ 1.00%	▲ 4.80%	0.00%	▲ 7.75%	6.00%	6.00%	0.00%
Cable Franchise Fee	5.00%	5.00%	5.00%	5.00%	▼ 0.00%	▼ 0.00%	5.00%	5.00%

Fundamental Changes in Kent's Sales Tax Base

What the previous analysis surfaced is that the City of Kent's sales tax base has undergone a significant and fundamental change in the past half-decade which will be critical to how the City addresses its long-term fiscal sustainability.

The City of Kent has been the hardest hit jurisdiction in the state, with respect to reductions in taxable retail sales, as it has faced both a structural change (sales tax streamlining) and a cyclical impact (recession) concurrently. Exhibits 7 and 8 show how components of the City's tax base have changed over time. When adjusted for inflation, the taxable retail sales are at or below 1994 levels. The biggest changes have been in the retail and wholesale trade categories, which show how dramatically streamlining has changed the productivity of the sales tax base.

Exhibit 8 presents these same values as a share of the total regional sales tax base, showing that these effects go way beyond any recessionary impact. The City's share of regional retail and wholesale taxable retail sales (TRS) has dropped from a high of 12-14% to a new low of less than 5%.

These changes reflect a dramatic decline in the productivity of its retail tax base that is unlikely to be fully restored anytime soon. This shift is even more dramatic when one considers the fact the Kent has grown both through development and through policy (annexations), while the strength of the sales tax base has eroded.

As the City considers policy options to realign its costs and revenues in a sustainable way, a key question that must be addressed frontally is how much the City reasonably expects to recover in terms of the productivity of its sales tax base. The answer will depend on several factors including: determining how much of the drop is structural (SST) versus cyclical (recession); what can be expected in terms of construction activity over the next several years; and how the City's commercial base is likely to develop as Kent continues to mature.

The answer to these questions will directly impact the degree to which other policies (both on the revenue and expenditure side) will need to be considered to address the City's structural sustainability challenge.

Exhibit 7
Kent Change in TRS since 1994 by Sector (2012\$)

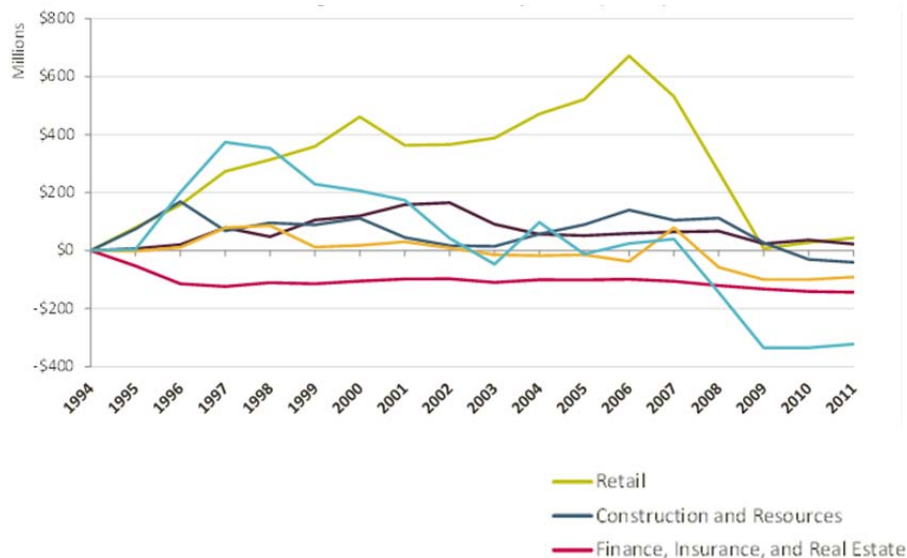
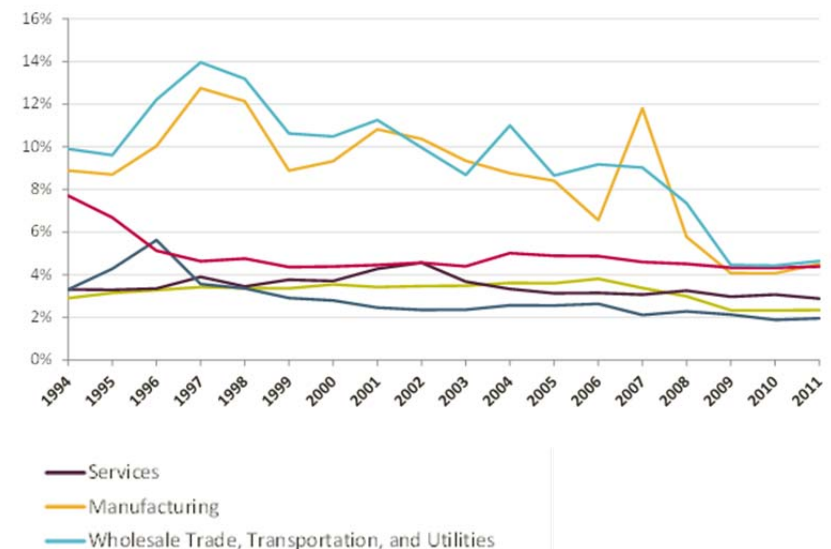


Exhibit 5
Kent Share of Three-County Region by Sector (2012\$)



Organizational and Staffing Analysis

The third major element of the situation assessment was to conduct an organizational and staffing analysis. This analysis included two principal elements, a review of current staffing levels (2012) for Kent and its peer and neighbor jurisdictions and an organizational and span of control review of Kent's current organizational structure.

Staffing Level Analysis

Looking at overall staffing and staffing, for each of the City's major functions, Kent shows up somewhat in the middle when compared with its neighbors and peers. Bellevue and Renton generally have somewhat higher staffing per capita, with Auburn, Federal Way, and Everett on the lower side. Kirkland and Vancouver are similar, but with variations among functions.

These types of comparisons are always difficult because no two jurisdictions are completely comparable nor are they organized in precisely the same way. Wherever possible, the analysis makes adjustments major differences, such as removing the public transit functions from Everett's public works department, however it was not practical to put all comparisons on a strict apples to apples basis,.

It is important to note this analysis does not account for other meaningful variations in service delivery choices, such as distinctions between cities that might provide some services directly by hiring staff as opposed to others that choose to engage contractors for some functions. Nor does the analysis account for differences in local preferences or funding capabilities. However, even with these limitations in mind, the comparison of FTE's per residents and jobs does show that Kent is not a particular outlier with respect to staffing levels. Some noteworthy observations from the analysis include:

- Bellevue stands out in terms of overall staffing levels, which is a direct function of that city's tax base advantages and local service preferences.
- Federal Way stands out on the other end of the spectrum also due to local preferences, mostly related to greater reliance on contract service provision, tax base issues, and choices about service provision (no utility functions)

Exhibit 6
Peer City Comparison: Staffing Levels

SELECT DEPARTMENT FTEs

Service	Kent	Auburn	Bellevue	Everett	Federal Way	Kirkland	Renton	Vancouver
Police	196.28	117.50	216.60	244.00	138.00	135.25	151.40	212.50
Parks and Recreation	90.01	50.00	165.09	68.00	35.95	42.50	92.30	76.30
Public Works	165.53	110.00	110.00	293.00	38.95	98.30	143.50	229.00
Planning, Comm. & Econ. Dev.	36.60	24.00	120.07	22.90	21.50	24.25	47.50	29.00
Finance	29.66	21.00	49.90	34.65	7.00	32.65	34.50	36.00
City Attorney/Legal	16.60	13.00	23.60	19.00	11.00	4.00	11.75	26.90

SELECT DEPARTMENT FTEs PER MODIFIED CAPITA (1,000 POPULATION AND EMPLOYMENT)

Service	Kent	Auburn	Bellevue	Everett	Federal Way	Kirkland	Renton	Vancouver
Police	1.08	▼ 0.79	▲ 1.99	▼ 0.99	▼ 0.57	▲ 1.19	▲ 1.28	▲ 1.13
Parks and Recreation	0.50	▼ 0.34	▲ 1.52	▼ 0.28	▼ 0.15	▼ 0.38	▲ 0.78	▼ 0.41
Public Works	0.91	▼ 0.74	▲ 1.01	▲ 1.19	▼ 0.16	▼ 0.87	▲ 1.21	▲ 1.22
Planning, Comm. & Econ. Dev.	0.20	▼ 0.16	▲ 1.11	▼ 0.09	▼ 0.09	▲ 0.21	▲ 0.40	▼ 0.15
Finance	0.16	▼ 0.14	▲ 0.46	▼ 0.14	▼ 0.03	▲ 0.29	▲ 0.29	▲ 0.19
City Attorney/Legal	0.09	▼ 0.09	▲ 0.22	▼ 0.08	▼ 0.05	▼ 0.04	▲ 0.10	▲ 0.14

Organizational Structure Review

The second element of the staffing review was to simply review the overall organizational structure and span of control within City departments to identify where there may be opportunities to streamline or consolidate functions.

Organizational Structure. With respect to the overall organizational structure, the review concluded that the City is generally well organized and lean in its operations. While there are departmental and organizational choices that could be reviewed with an eye toward efficiency, there are no obvious changes that would present immediate efficiency gains.

Rather, the types of options that are available would generally involve some tradeoffs, which may produce marginal savings but at the expense of either level of service or other organizational benefits to the current structure. For example the City of Kent provides a full service approach to criminal justice with a Municipal Court, Jail, and prosecutorial operations. Many cities contract or regionalize some or all of these functions and it may be helpful to examine this structure when looking at costs in the future. However, a change would also entail some loss of control over these functions which may also have cost implications.

There may also be opportunities for efficiency through targeted consolidations of various functions. For example:

- Communications, Government Affairs and Multimedia Division could be consolidated as the City shifts to greater reliance on electronic communications and social media.
- Risk management with Legal would put a greater focus on reducing risk and liability.
- Clerk, Legal, and IT could be combined to focus on records management, retention, and response to increasing requests for information under the OPMA and the proliferation of electronic & social media communications.
- Parks and Public Works functions could be combined to address maintenance issues, opportunities to cross-train, and seasonal work demands.

Again there will likely be tradeoffs in any of these cases, as there is a rational basis for how these functions are currently organized.

Span of Control: In reviewing the span of control relationships in the City's current structure, the conclusions were drawn that staffing levels and organizational hierarchy are generally consistent with the City's overall scale and type of services. The following are some specific observations that came out of departmental span of control review:

- The Human Resources department appears lean given the size and scope of the City's services and the human resource service challenges while the City is transitioning to a new sustainable model.
- The administrative span of control is thin as the Chief Administrative Officer has a number of direct reports, leaving a significant degree of autonomy for each department. This is not uncommon and reflects the lean nature of the organizational structure with distributed accountability at the department level.
- Initial review of the Clerk's office suggests the City may be vulnerable to public records requests, which has been an area that has been requiring increasing amounts of staff time.
- IT and Community Development appear well organized and lean given the nature of their work.
- Public Works span of services appears well organized for operations purposes: streets, water, utilities, sewer, and storm water. However, opportunities may exist for cross-training to maximize efficiencies across the various operational units.
- Engineering operations appear to have a significant resource allocation and offer full service capabilities. While there may be opportunities to contract for some of these services, the City has previously determined that doing much of this in-house has been less expensive than using outside professional services.
- Administrative functions are generally lean in relation to direct service functions, reflecting the downsizing decisions made in recent years.

The span of control findings are generally in synch with the broader staffing level review which concluded that the City of Kent is reasonably staffed given the current service delivery model and choices about levels-of-service.

III. THE SUSTAINABILITY CHALLENGE

As discussed earlier, one of the main objectives of this Phase 1 effort has been to develop a deeper understanding of the challenges the City faces as it works to realign municipal services in the face of significant changes in its tax base and statutory limits on local government revenues.

As the economy stabilizes and begins to grow again, the City has an opportunity to effectively manage toward a more sustainable future using the economic recovery as a platform on which to build. In moving forward, it worth recognizing some the City's strengths as well as some potential threats that should be considered when evaluating opportunities for improvement.

Strengths: While much of the situation assessment focused on identifying challenges, there are several noteworthy strengths that will be critical building blocks in moving toward a more sustainable structure, in particular:

- The City has a strong base of experienced and tenured leaders across city functions that works well cross-departmentally.
- The City has aggressively moved to align costs and revenues in recent years and has taken steps to diversify its revenue base and rebuild reserves.
- The City has an active and engaged Council with a forward focus through the Strategic Plan.
- The City is already operating efficiently across both internal and direct service functions.
 - Internal service functions are lean and in line with responsibilities
 - Customer facing functions have seen recent reductions and are also in-line with peers
- The City has a diverse economic base and a good jobs-to-housing balance.
- The City is strategically located to continue to capture employment growth and additional housing.
- Council and administrative leadership have taken the initiative to strategically manage their fiscal destiny.

Threats: In contrast there are several threats to the City's ability to effectively manage its way through the recovery. In particular:

- Streamlined sales tax mitigation funding remains uncertain from one year to the next due to the State's financial deficits. The temporary funding has masked the significant erosion of this revenue source for the city.
- The annexation sales tax credit has provided a financial buffer during the recent fiscal crises, but this source of funding is not permanent.
- Strong development in neighboring cities (not subject to the recent flood risks) increases the risk of sales tax leakage to those communities.
- Cost escalation for municipal services is likely to be higher than growth of major local tax sources. This is not unique to Kent, but more of function of recent tax limiting measures.
- It is unlikely that the sustainability challenge will be "self-correcting" with improved economic conditions (see page 7 for discussion of fundamental shifts in tax base). The City will need to pro-actively address the structural issues, some of which will most likely involve difficult choices.
- Staff are spread thinly and are concerned about their ability to maintain service levels in the long-term:
 - Morale issues have become more pronounced.
 - There has been a noticeable increase in the need to address internal conflict resolution issues.
 - The potential impacts of future staff turnover would be high, as the City gains significant benefit from the working relationships among its tenured work force that go beyond individual contributions.
- As revenues improve there will be pressure to reinstate previous service and staffing cuts. However, given the structural nature of some of the changes, policy makers will need to carefully consider where to invest any increments of new funding capacity.
- With only a portion of the City paying utility taxes, there is a significant tax equity issue that may complicate other tax policy issues in the future.

What Has Been Done

As mentioned earlier, the City has taken significant steps already to put its future on a more sustainable fiscal path. While many of these decisions were made under significant financial duress, they nonetheless have set a new and more balanced baseline from which to grow.

- The City has significantly reduced expenditures by reducing overall staffing levels, both in internal service functions and customer facing functions.
 - These reductions were done at a time when the City was managing the additional demand associated with the Panther Lake annexation.
 - The net effect of concurrent staffing changes and increased demand for services has forced the City to dramatically increase overall productivity of city services.
- Even while costs have been reduced, the City has also had to work to increase its revenue base by increasing some tax rates and looking to diversify its tax and fee structure:
 - Increased utility taxes on public utilities.
 - Added a technology fee to support IT functions.
- More recently, the City has taken additional steps to diversify its revenue base:
 - Submitted a levy lid lift to support parks and streets, though the measure failed 44%-56%.
 - Broadened the tax base by adding a business and occupation tax (B&O).

Key Issues for Opportunities Assessment

As the City begins to consider its options, and opportunities to effectively manage the next phase of this effort, it is worth keeping the following issues in mind.

- The “easy” cuts have been done. Given the magnitude of the adjustments that have been made to date, the City has clearly already gone past the point where there are easy or obvious cuts to be made going forward.
- Most cuts have focused on reducing overall staff levels based on prioritizing needs within Departments.
 - Initial cuts focused on internal services and so were mostly felt at the staff level.
 - Most recent cuts extend to programs and are starting to be seen more directly by external stakeholders.
- Any future efficiency measures will most likely need to come from structural changes:
 - **Scope of Services:** What is the City doing that it does not need to do at all?
 - **Level of Service:** Are there services that can be reduced because the current level is higher than the community is willing to support?
 - **Mode of Delivery:** What is the City doing that someone else can do for less? Or bring in house? Or improve through investments in technology?
- In addition, there may be opportunities to leverage new and existing funding sources to continue to improve revenue diversity and stability.

IV. PRELIMINARY LONG LIST OF EFFICIENCY MEASURES

The final step in the Phase 1 effort was to identify a “long list” of potential efficiency measures that could be prioritized and evaluated further in Phase 2. The measures are organized according to the major types of strategies.

Scope of Services

Scope of services is largely determined by the statutory framework that guides how local government is organized and structured to deliver services. State law, charters, codes, and regulations guide this. Cities and counties have only limited control to change which services are mandated or discretionary. Given that, there were only a few ideas that came forward that relate to scope of services.

- Reduce human service functions and funding at the City level to only mandated requirements. While this is a very difficult issue and one that challenges the City’s broader community vision, in challenging fiscal times all options should be reviewed and this is one of the few areas that fall outside the City’s strict scope of service requirements.
- A broader concept that could prove particularly fruitful would be to explore new opportunities to be a regional public service provider in the Southeast King County. Given that the City is the largest municipality in Southend and that all jurisdictions are facing similar fiscal challenges, there may be opportunities to regionalize some municipal services with Kent taking on the role of regional service provider.
 - The areas where there may be opportunities include police, public works, parks maintenance, municipal court, IT and jail services.
 - The benefit of this type of arrangement would be to leverage existing strengths and offer opportunities to take advantage of economies of scale for both the City of Kent and its potential contract partners.
 - It should be possible to provide some services at a lower overall cumulative cost if these can be pooled across several jurisdictions.

Level of Service

Level of service represents community choices and expectations regarding the level of specific service to be provided: police response times, acceptable levels of traffic congestion, and the number, type and quality of the City’s parks.

Cities have the flexibility to make choices about how much of particular services should be delivered and at what cost. In many cases, there are important economies of scale issues to be considered, such as in cases where it may become counter-productive to reduce service levels when doing so won’t meaningfully reduce staff needs or conversely where an increase in service level enhances other functions in the City.

- Process review of the roles/relationships among Police, Prosecution, and Municipal Court to determine if there are ways to align policy objectives to improve cost efficiencies. Currently these functions are coordinated in an ad hoc manner and it may be possible to improve overall levels of service with a more structured process for coordinating around common policy objectives.
- Review recreation programs and identify opportunities to reduce offerings and to improve overall cost recovery for the program. Determine which programs have the greatest community support or best meet other policy objectives (such as after school programs).
- Invest in parks facility rehabilitation to reduce demand for ongoing maintenance, thus increasing the effectiveness of maintenance staff.
- Assess impact of rule changes on Public Defender’s workload and determine if levels-of-service can be maintained or must be reduced. Plan for potential impacts.
- Allow permit review times to expand as permit activity increases.

Mode of Service Delivery

Mode of service delivery focuses on how direct services are delivered efficiently and productively by changing the coordination, deployment, and management of resources. During the situation assessment there were several service delivery issues identified where a more comprehensive assessment of alternative service delivery options was warranted. These include:

- Considering options to regionalize jail functions by contracting with another entity.
- Reviewing agreements with the Regional Fire Authority to ensure that these arrangements are in the long-term interest of city taxpayers and enhance city efficiencies.
- Reviewing practicality of extending the paperless model in the Law Department to Municipal Court.
- Continuing to explore ways to use technology to support internal and external communications.
- Considering options for contracting out the operation of the golf course, either fully or for certain functions.
- Contracting out City maintenance functions, including:
 - Landscape services,
 - Street maintenance,
 - HVAC services, and
 - Custodial services.
- Continuing to push to paperless and online solutions such as utility billing, elements of the bid and procurement process, permit intake, and review.
- Moving to automated meter reading for utilities, where the meter communicates directly with the billing system.

Organizational and Administrative

While it was determined that, overall, the City was organized and staffed in a reasonable manner and in alignment with service responsibilities, there were a number of organizational and administrative ideas that may be worth further work to determine if there might be opportunities for efficiency and/or effectiveness improvements.

- Assess consolidation opportunities as a way of increasing internal economies of scale:
 - Communications, Government Affairs and IT - as communication functions shift more to online communications and social media.
 - Risk management with Legal - with a greater focus on reducing risk and liability.
 - Clerk, Legal, and IT - focusing on records management, retention and response to increasing requests for information under the OPMA and the proliferation of electronic & social media communications.
 - Parks and Public Works - addressing maintenance and operating considerations, opportunities to cross-train, and seasonal work demands.
- Consider centralized procurement and purchasing.
- Consider centralized accounting functions within Finance.
- Review and benchmark employee benefits (health care contributions, leave policies, overtime, PTO, PTO accruals).
- Conduct a process review/redesign for selected internal services (payroll, procurement, purchasing).
- Reduce staff time devoted to contracting by increasing the threshold for contracting without a public bid process and/or rosters to a greater degree.
- Review and possibly redesign the fleet management program to reduce costs.

Revenue Enhancements

As mentioned previously, the City has already taken steps to shore up its revenue base. Additional opportunities to improve the stability and diversity of City revenues include:

- **Increase fees.** The City currently funds portions of various services through a mix of tax revenues and fees. The biggest program elements funded this way are parks and recreation and development permitting and review. Every dollar that is not recovered through fees for these programs must be covered by taxes, which means that all taxpayers pay a portion of these fee for service activities. The City should at least consider the implications of transitioning to a full cost recovery model for certain fee-for-service functions.
- **New dedicated funding.** Some communities have created new organizational and funding structures for specific municipal functions. Kent did this with its fire services recently. Another opportunity that could be explored is the creation of a Parks District which would put many of the parks facilities and services into a separately funded district.
- **Franchise fee for utility districts.** The City should evaluate the feasibility of extending at least some of the utility tax burden to residents and businesses served by utility districts. As discussed previously, this is a significant tax equity issue that makes addressing other issues more difficult. As it stands now, about 40% of City residents do not pay a utility tax but get to enjoy the same access to services as all residents. It is understood that the districts have opposed this concept before, but it is a fairly basic fairness question that also significantly increases the fiscal challenges for the City.

Strategic and Policy Initiatives

The other opportunities discussed focus on specific revenue or service strategies or initiatives. At a higher level there are several strategic and policy initiatives that the City might consider as a way of ensuring that it is acting in a coordinated and targeted way. A particular challenge will be the fact that managing the transition to a new sustainable model of municipal services will be a multi-year process and will need to react to both new opportunities and challenges which will inevitably arise. Toward this end the following concepts are suggested as ways to help manage this process:

- Develop a long-range financial plan that is linked to the Council Strategic Plan which can service as a guide for future budget decisions.
- Develop an investment strategy that will inform capital funding decisions, particularly as revenues rebound with economic conditions improving. A key issue in subsequent budgets will be the tension between funding capital and expanding services. An investment strategy can help balance these needs in a thoughtful way.
 - Target investments that will improve efficiency and effectiveness so the City can continue to deliver more for less.
 - Target investments that will increase tax base through economic development.
- Develop a performance management system to support future budget decisions which can more closely align funding choices with strategic priorities and desired outcomes.
- Connect the Comprehensive Plan to the long-term fiscal sustainability goals as part of the upcoming Comprehensive Plan update process. A key driver of both costs and revenues is the underlying land base. Choices about the type, scale, density, and location of development can have long-ranging implications for fiscal balance.

V. APPROACH TO PHASE 2

At the conclusion of Phase 1, there is now a lengthy list of potential initiatives, both large and small, which could serve to improve the City's long-term fiscal sustainability. The question now is how to move from this point through an evaluative phase and develop an implementation plan that will continue the journey to a more balanced future. The following program is suggested as a way to move forward with Phase 2 of the Efficiency Study.

- **Narrowing and prioritization of the long list of strategies:** There are many ideas put forward during Phase 1 that need to be organized and prioritized. There are likely groups of ideas that can and should be looked at together, while others may not be ripe for further exploration.
 - Propose a facilitated process to work through this initial review and prioritization process that would involve both staff and Council.
 - The process could be integrated into a work session as part of the Council's annual retreat in early 2013.
- **Evaluation of targeted initiatives and strategies:** Once the concepts have been prioritized and organized, a work plan would be developed to systematically evaluate the ideas to determine likely costs and benefits.
 - The evaluation phase would likely include some combination of staff and consultant assignments to further develop the initial concepts and more deeply explore potential costs and benefits.
 - These efforts would be in support of further facilitated discussions to ensure that the issues fully understood and fairly evaluated.
- **Development of an implementation plan:** After the evaluation process is complete an implementation plan would be developed that would include clear timelines, costs, and accountabilities for moving forward.
 - The implementation plan would be developed in close collaboration with staff and policy makers.
 - The plan would serve as a key input to future budget discussions.